The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Politics And Economics

Although the conventional wisdom believed that the elections would have little near-term impact on the business outlook, the magnitude of Mr. Reagan's victory, along with the rather sizable gains that the Republicans made in Congress, change things somewhat—at least for the next month or two.

For one thing, the Federal Reserve would seem to have more freedom to act in restraining the growth of money and credit. In the last few weeks the financial markets had come to believe that the Fed's control over the monetary aggregates was diminishing. As a consequence, inflation psychology had begun to reappear. In view of the "mandate" received by those who claim to be practitioners of a conservative economic policy, the Fed is less likely to encounter political interference as it goes about reasserting its control of money and credit.

Clearly, this has significant implications for the financial markets. Short-term interest rates may be expected to rise until the Fed brings growth in the money supply under control. If and as the Fed is successful in this undertaking, the bond markets should rally, pushing long-term interest rates down. Both rising short-term interest rates and their eventual implications for a reduced rate of inflation would tend to be bullish for the dollar in foreign exchange markets.

As for 1981, the outlook remains pretty much the same. A slow (and sometimes stumbling) recovery seems to be the best bet. Neither consumers nor business has the wherewithal to fuel a significant rise in outlays. Government spending will rise rapidly, but should slow as the year progresses in response to what should be increasing efforts to slow its growth by a conservative President and a conservative Congress.

This brings us to the longer run. To the extent the new Administration is able to put through its program of tax reductions for business and investors, it bodes well for the longer-run health of the economy. Obviously, this will mean expanding markets for those industries that produce capital goods. On the other hand, the combination of redoubled efforts to fight inflation along with reduced emphasis on consumption might make it more difficult for consumer goods industries to increase sales and earnings.

Inflation May Be Tough To Reduce . . .

The President-elect has a difficult job ahead as he tackles inflation, which has recently returned to double-digit rates of rise. In its monthly survey, the National Association of Purchasing Agents reported more industrial materials were affected by inflation in October than in September as buying managers noticed increased incidences of higher prices. October's rise in the Producer Price Index was a sharp 0.8 per cent, while the Labor Department's weekly index of spot commodity prices has posted a 12.3 per cent increase since midyear, or almost 37 per cent at an annual rate. This rapid climb was paced by a 16.9 per cent advance in the price of basic metals, partially a result of the slightly improved economic situation and thus an upsurge in demand.

Copper prices, however, have held at relatively high levels despite a poor supply/demand position. The price has remained at around 95 cents since July 1. During this time consumption dropped as a result of reduced demand by major consumers—autos and housing—and because most buyers purchased the metal prior to July 1 in anticipation of a strike against manufacturers (Financial Digest—November 3, 1980). However, even as the strike materialized and production was reduced, inventories held by refiners and consumers continued to expand.

Similarly, the demand for aluminum has been sluggish. Domestic shipments totaled 8,180 million pounds during the first eight months of the year, or 13 per cent below a year ago. However, the current price is 15 per cent above last year's level because many users expect future production—which is extremely energy intensive—to be curtailed, particularly in Europe. Consequently, the current oversupply produced by the recession may soon be exhausted.

. . . Because Commodity Prices Are Jumping

Food prices were the major factors behind the recent surge in inflation at the retail level. At the commodity level foodstuffs have escalated by 11.6 per cent since July, pushed primarily by a 15.4 per

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cent increase in meat prices. Beef prices advanced due to reductions in herds initiated back in 1976. Hog and poultry production was recently slashed because previously abundant supplies held prices below the cost of production and because of the drought. Currently soaring prices of feedgrains, rising interest rates and increasing costs of other items associated with production will preclude a rebound in meat production for some time.

Grain prices have experienced strong upward pressures particularly as a result of the summer drought, and more recently, due to the poor harvest in the Soviet Union and the pact with China. Estimates of domestic feedgrains production and stocks made by the Department of Agriculture have been reduced monthly, and the downward trend in revisions will probably continue. The most recent estimate of the current year corn crop was 6.47 billion bushels, or 17 per cent below the 1979 harvest. Sorghum output is expected to decline by a third, and oats production may fall by 16 per cent.

Importantly, soybean output is forecast to be down by 23 per cent from the record 1979 harvest. Factors contributing to these declines were a reduced number of acres planted for some grains and a drop in yield caused by the heat and drought in the Midwestern states. Combined with expected increases in consumption especially from abroad, a supply squeeze may develop. Intensified by smaller harvests by some of the other large producers, such as

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/29/80	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	130.542	– .550	+ 6.601
Member Bank Borrowings	1.440	+ .237	– 1.611
Float	3.370	– 1.743	– .778
Total Reserve Bank Credit	141.816	– 1.412	+ 5.872
Treasury Deposits with Federal Reserve Banks	3.190	– .011	+ .117
Currency Outside Banks	118.908	– 1.096	+10.251
Member Bank Reserves:			
Required	41.930	– .181	– 1.344
Excess (Deficiency)	.088	+ .020	– .271
Total Reserves Held	42.018	– .161	– 1.615
Net Borrowed Reserves	1.265	+ .199	– 1.784
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	85.677	+ .078	+ 3.748

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	386.6	+ 15.2	+ 5.7
M-1B	410.7	+ 17.7	+ 7.6
M-2 (September '80)	1,640.2	+ 14.5	+ 9.1
L (July '80)	2,245.0	+ 8.3	+ 8.8

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 11/7/80	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	13.26%	13.15%	12.36%
* Federal Agencies	14.25	14.00	13.90
* Project Notes–Taxfree (46% Taxable Equivalent)	10.19	12.04	12.59
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market–Prime	15.00	13.50	

‡Finance Company Paper–Prime

5- 14 days	14.00%
15- 29 days	14.50
30- 59 days	14.65
60-179 days	13.75
180-270 days	13.75

‡* Bankers' Acceptances

Dec.	14.75%
Jan.	14.75
Feb.	14.75
Mar.	14.70
Apr.	14.70
May	14.50

‡Industrial Paper–Prime

30- 89 days	14.50%
90-120 days	14.75

†Federal Funds Effective Rate 15.00%

‡Discount Basis. * Subject to Availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'80	$ 2,583	$ 2,521	$ 2,397
Gross National Product (1972 Dollars)*	3rd Q'80	$ 1,412	$ 1,409	$ 1,433
Percent Change, Annual Rate	3rd Q'80	1.0%	– 9.6%	3.1%
Change in Consumer Prices (all urban consumers)*	Sept '80	12.0%	8.4%	14.4%
Change in Producer Prices*	Oct '80n	9.6%	– 2.4%	13.2%
Civilian Employment (Thousands of Persons)†	Oct '80n	97,176	97,207	97,474
Unemployment as % of Civilian Labor Force†	Oct '80n	7.6%	7.5%	5.9%
Personal Income*	Sept '80	$ 2,160	$ 2,140	$ 1,960
Leading Indicators Composite Index (1967=100)†	Sept '80	133.6	130.5	140.1
Industrial Production Index (1967=100)†	Sept '80	142.4	141.0	152.7
Net Change in Consumer Installment Credit†	Sept '80n	$ 1.45	$ 0.02	$ 4.45
U.S. Merchandise Trade Balance†	Sept '80n	–$ 0.76	–$ 0.13	–$ 2.58
Plant and Equipment Expenditures*	4th Q'80	$193.17(a)	$195.54(a)	$186.95
Private Housing Starts (Thousands of Units)*	Sept '80	1,544	1,416	1,874
New Construction Expenditures*	Sept '80n	$222.0	$215.1	$235.3
Total Business Inventories†	Aug '80	$ 451.5	$ 449.5	$ 417.1
Total Business Sales†	Aug '80	$ 308.1	$ 303.9	$ 293.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

Australia, farm prices for all grains are projected to be substantially higher for the 1980-81 season.

Business Costs Rise Too Soon

Although September's increase of 2.4 per cent in the index of leading indicators was good news for the economy, the 3.3 per cent increase in the index of the lagging indicators was not. This latter index is a composite of six statistics which trail the movement in the overall economy in general and the leading indicators in particular. It mostly measures the cost of doing business, including labor costs, "real" inventories, the prime rate, commercial and industrial loans outstanding and others, which usually start rising only after a recovery is well underway. Last month's rise—the first since April—was the largest during the postwar period with the exception of a 5.2 per cent increase registered just last March; it occurred only four months after the leading indicators posted their first increase.

In the past, the lagging indicators trailed considerably behind the index of leading indicators. The shortest lag between an upturn in the leading indicators and a resurgence in the lagging indicators was eight months, after the 1957-58 recession. The longest lag—19 months—occurred after the 1969-70 recession. Since the current advance was so large and so soon after the upturn in the leading indicators, there are concerns that this rise in business costs may abort the current uptick in economic activity, pushing it down once again. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/22/80)	96,503	+ 586	+ 6,165
New York City (10/22/80)	22,520	+ 89	+ 4,293
Commercial Paper (10/22/80)	124,805	+ 428	+17,155

Bank Loans

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks			
Nationwide (10/22/80)	165,964	+ 55	+12,381
New York City (10/22/80)	48,405	– 495	+ 3,436
	Total Loans Gross Adjusted		
Nationwide (10/22/80)	410,077	– 660	+20,989
New York City (10/22/80)	94,629	– 679	+ 8,131

Financial Markets

	Friday 11/7/80	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.02%	– .24	+ 2.21
180-Day Bills†	12.84	– .99	+ 1.95
Longest Bills†	12.17	– 1.49	+ 1.28
Recent Issues:			
12⅛s 10/31/82	13.16	+ .06	
12½s 9/30/84	13.40	+ .53	
13s 11/15/90 (When Issued)	12.90	NA	
10⅜s 11/15/09	12.35	+ .14	
Municipals:			
Bond Buyer–20 Bond Index* (11/6/80)	9.64%	+ .19	+ 2.37
Blue List Total ($ Million)	$ 808	– $ 66	+ $ 127
30-Day Visible Supply ($ Million)	$2,390	+ $401	+ $ 679
Total	$3,198	+ $335	+ $ 806
Corporates:			
Moody's Aa Composite (11/6/80)	13.34%	– .07	+ 1.99
Money Mgr.–30-Day Supply ($ Million)	$4,083	+ $460	+ $2,474
Stocks:			
Dow-Jones Averages:			
Industrials	932.42	+ 7.93	+ 125.94
Transportation	363.22	+ 1.91	+ 130.36
Utilities	109.94	+ 1.05	+ 10.75
65 Stocks	353.81	+ 1.73	+ 71.88
Standard and Poor's 500 Stocks	129.18	+ 1.71	+ 27.61
N.Y.S.E. Composite Index	74.35	+ .82	+ 16.57
N.Y.S.E. Avg. Daily Vol. for Week (000's)	52,255	+14,005	+ 28,313

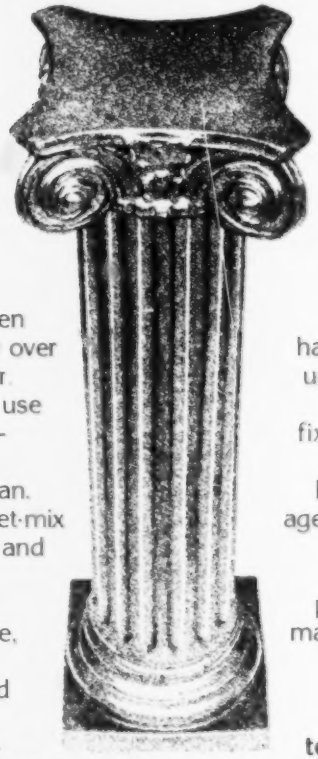
* 46% Taxable Equivalent 17.85%.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/7/80	Week Ago
Overnight	15.00%	13.50%
1 month	16.00	14.50
3 month	16.50	15.06
6 month	16.50	14.94
1 year	15.13	14.13
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	13.23%	12.95%
Long Term (7 to 15 yrs.)	13.50	13.05

FOREIGN EXCHANGE SPOT RATES New York Opening (11/7/80)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.03182	31.43
Canada	.8405	1.1898
Denmark	.1163	6.0115
France	.2215	4.5145
Germany	.5103	1.9595
Italy	.001086	920.80
Japan	.004684	213.50
Mexico	.04320	23.15
Netherlands	.4720	2.1185
Switzerland	.5687	1.7585
U.K.	2.4280	.4119

At Manufacturers Hanover we don't put any one asset category on a pedestal.



Some fund managers have been known to favor one asset category over others. Not Manufacturers Hanover.

Our approach is, first of all, to use absolute rate of return objectives—derived directly from the precise characteristics of the retirement plan. So we can establish a realistic asset-mix policy that reflects your objectives and the investment future.

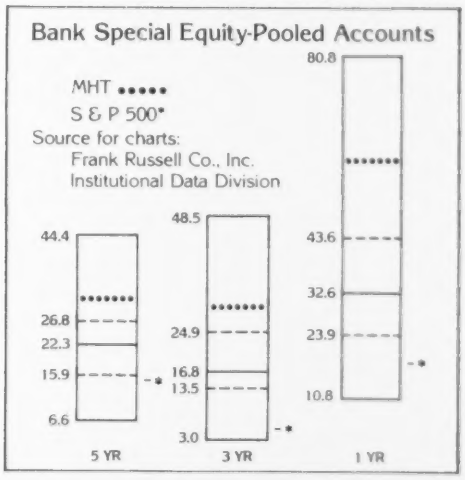
Investment vehicles are then chosen—but only after an intensive, objective analysis of the expected returns and the volatility associated with each possible asset category. Our lack of biases toward any particular type of asset enables us to deliver stable returns over the course of a market cycle.

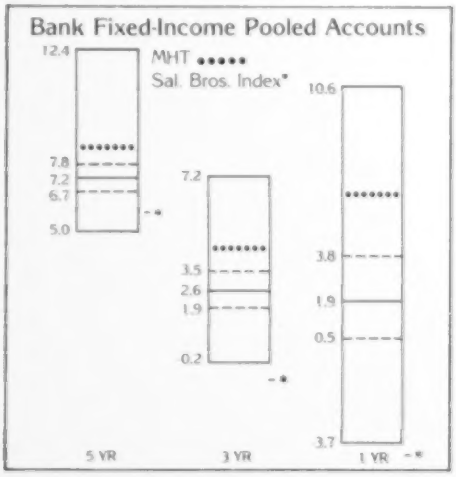
As the charts show, this approach has put Manufacturers Hanover in the upper quartile level of returns in both special equity-pooled accounts and fixed-income pooled accounts.

Most importantly, Manufacturers Hanover runs each investment management program the way any well-run business operates. Techniques like long-range planning, contingency planning, quality control, and performance measurement guide every step of the decision-making process.

To learn more details about the Manufacturers Hanover approach to investment management, contact William C. Petty III, Vice President, at the address below or at (212) 957-0760.

Annualized Rates of Return—Periods Ending Dec. 31, 1979





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